

- Creates an *equitable and uniform* land classification system that stands the test of time.
- Creates a seamless classification system for all land in Montana that is valued on a productivity basis.
- Updates the existing forest productivity estimates with improved data sources such as soil information.
- Improves forest land/non-forest land delineations.
- Creates a defensible tax system based on sound science and decades of data collection.
- Eliminates the need to request additional department staff to maintain Class 3 (agricultural) and Class 10 (forestland) tax systems.
- Brings the state into compliance with state laws, which mandate current classification and grading of agricultural land and that assessment work must be *equitable and uniform*.
- Is not substantially different in concept than the current tax system.
- Only minor legislative changes may be necessary to current law.

When would the new agricultural land and forestland classification and productivity system be implemented?

The department began to develop the new system on July 1, 2006, under the guidance of the Agricultural Land Advisory Committee. However, reappraisal of agricultural land and forestland would not be completed until December 31, 2008. The 2007 Legislature will provide input and additional guidance. The 2009 Legislature will have final review of the system and will be presented all information concerning the potential impacts to producers. Ultimately they will develop laws and policies for dealing with any potential impacts. The new reappraisal values will be implemented in tax year 2009.

When will I know what my new agricultural and forestland values are?

The Department of Revenue will mail new property tax assessment notices to all property owners in the spring of 2009. The assessment notice will show the previous value as well as the new reappraisal value. The values on the assessment notices will reflect any changes the 2009 Legislature deems appropriate to address increases or decreases in the agricultural land and forestland reappraisal values.

Where can I go to see how my agricultural land and forestland values were determined?

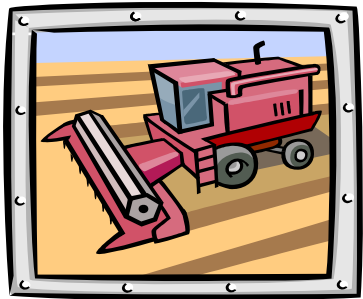
The agricultural land and forestland classification maps, along with key information used to develop your land assessment, may be viewed at your local Department of Revenue appraisal/assessment office where the property is located. The information will be available to the public in early 2009 after the assessment notices are mailed. Landowners are encouraged to review the land classification maps to verify that the information the department uses for their property is correct.

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State of Montana – Department of Revenue



Understanding the Proposed
Agricultural and Forest Land
Reappraisal Project for Tax
Year 2009

Montana has more than 55 million acres of agricultural and commercial forestland in private ownership. The Montana Department of Revenue is proposing to implement a new classification and valuation system for these lands based on improved productivity estimates. These changes would be implemented in tax year 2009.

Why is the Department of Revenue reappraising agricultural and forestland?

The Department of Revenue is statutorily obligated to reappraise all taxable property, including agricultural land and forestland, on a cyclical basis. The department must maintain the current classification of all taxable lands and secure an *equitable and uniform* basis for taxation purposes. The valuation of agricultural lands has been consistently updated with each reappraisal cycle since 1993. Unfortunately, the underlying agricultural land classification and productivity system has not been comprehensively reviewed for more than 40 years. If we are to comply with law, the department must find a way to acknowledge changes in land use and productivity that have occurred over that timeframe.

What’s the bottom line? Are my agricultural and forestland taxes going up?

The answer to that question is dependent on two factors: changes in taxable value, and changes in mill levies. Due to increased levels of productivity that may not be reflected in the current system, assessed values for agricultural land may increase in some instances. The reappraisal of forestland will greatly improve productivity estimates on any given forest site. However, it is unlikely that a forestland reappraisal will significantly change the statewide level of assessed value.

The Montana Legislature specifies the tax percentage for all classes of real and personal property. The taxable percentage is applied to the assessed value to produce the taxable value. If history has taught us anything, it’s taught us that the Legislature will do all they can to maintain taxable value neutrality on a statewide basis by adjusting the tax percentage. Local governments apply mill levies to the taxable values to produce the property tax.

The Department, along with the Agricultural Land Valuation Advisory Committee, will recommend that taxable value neutrality be maintained. The Montana Legislature will ultimately decide if any increase in reappraisal values will translate into higher taxable values.

Is there a need to take a new approach to reappraising agricultural and forestland?

Absolutely. Existing law requires that the department keep agricultural and forestland use changes and productivity levels current. However, the current agricultural classification system utilizes hand drawn maps that are very labor-intensive and cost prohibitive to maintain or update. It also does not readily allow for the use of available technology. While the forestland classification system is not as out-dated as the agricultural classification system, it also relies on manual work to maintain and update. Simply put, the Department of Revenue doesn't have the resources available or budget authority to maintain that type of manual-based system.

The department is left with few choices: request the laws be changed that require us to keep the data current or find a way to comply with the law in a way that is cost effective, defensible, and easily understood by agricultural producers and forest landowners. The department believes use of soil survey information from the United States Natural Resources Conservation Service (NRCS) to establish productivity estimates and agricultural land use information from the Farm Service Agency (FSA), our existing classification information plus on-site field reviews, will meet those tests. Only recently have technology and data from those sources become available to develop a seamless classification system for agricultural and forestland.

The end result will also be a system that removes subjective decision-making that may have occurred in the past on productivity estimates, as well as a system that will stand the test of time. The new system will help ensure the department can accomplish this part of its job responsibility without the need for more staff.

What is the basis for agricultural and forestland valuation?

By law, agricultural land and forestland are valued on the basis of land productivity. The productivity is the amount of wheat, alfalfa or timber that can be grown on the land under normal management. Under current law, the pressures of urban influences or land speculation are not allowed to influence productivity values. The proposed reappraisal system for agricultural and forestland would be a productivity-based classification system. Again, land productivity or yield would be based on the United States Natural Resources Conservation Service soil survey in each county and agricultural land use from the Farm Service Agency combined with existing classification information as well as on-site field reviews.

How does the productivity based part of the property tax system work?

Productivity classification systems measure the relative value of a soil for agricultural or forestry use. A good rating system takes into account the physical and chemical properties of the soil as well as the influence from climate, elevation, slope and aspect. Critical to any productivity classification system is the defined level of management. The new system will be predicated on average management. Within a taxing jurisdiction, the assessed value based on productivity should vary only on the relative quality of the soils on a landowner's property, not on how poorly or how well they manage their agricultural or forestry operation. The United States Natural Resources Conservation Service soil survey can be used in Montana to develop an *equitable and uniform* agricultural and forestland productivity system because assessed values are objectively calculated on the basis of soil properties and the influence of climate on those soils.

How would the new agricultural land classification system work?

The proposed agricultural land classification system will continue to have five agricultural use categories. They are non-irrigated summer fallow land, non-irrigated continuously cropped farmland, irrigated cropland, non-irrigated continuously cropped hayland and grazing land. As is the case today fruit orchards, vineyards, cultivated Christmas tree plantations, sod farms and nurseries are also identified as agricultural uses. Grazing land would include both irrigated and non-irrigated rangeland used for grazing livestock.

How does the agricultural valuation formula work?

The basic agricultural land valuation formula is $V = I/R$, where **V** is the per acre land value for each use type; **I** is the per acre net income for each use type (for example, gross income less expenses); and **R** is the statutorily set capitalization rate. The valuation formula is established in law and will not change under the proposed reappraisal.

The per-acre gross income is calculated for each agricultural use category based on the land's productivity and the commodity price for base crops or the private grazing land lease rate. Non-irrigated summer fallow land and non-irrigated continuously cropped farmland use wheat as the base crop for valuation while irrigated cropland and non-irrigated continuously cropped hayland use alfalfa hay as the base crop for valuation. The private lease rate to pasture an animal unit for one month is used for grazing land. The net income per-acre is determined by deducting agricultural costs from the gross income per-acre. The net income is then divided by a capitalization rate set in Montana statute to produce the per-acre assessed value.

Is the proposed classification and productivity system similar to what we currently use to assess agricultural and forestland?

Yes, it's virtually identical to the existing system:

- The new system would continue to be a productivity based tax system.
- At this time, there is no change planned to the valuation formula that is applied to the agricultural or forestland productivity system. However, it is within the authority of the Agricultural Land Valuation Advisory Committee to recommend changes to the Legislature, which oversees agricultural land valuation.
- The same base crops will be used for agricultural valuation purposes (wheat, alfalfa and private lease rate for grazing livestock).
- There are no changes planned to the method used to estimate forestland productivity or to the forestland valuation formula.

Are there any differences between the current system and the new system?

By using the new system, the reappraisal of forestland would create more precise delineations between forestland and non-forest land. That's very important as we try to accurately reflect each taxpayer's property tax obligation. Additionally, with better soil and precipitation data that is available today, the forestland productivity estimates will be much more accurate and precise.

The proposed classification system for agricultural land contains several small changes:

- Productivity on all non-irrigated cropland would be based on its ability to produce non-irrigated spring wheat. Spring wheat is the most common small grain crop in the state and is capable of being grown in virtually all locations. Adjustments would be made to reflect long-term countywide average production.
- Productivity on grazing land will be determined as if it is native, non-irrigated rangeland, even if the operator has planted domestic grass species to improve productivity.

What are the advantages of the new agricultural land and forestland classification and productivity system?

- Bases land productivity on the physical and chemical properties of the soil and the influence of climate, slope, aspect and elevation.
- Productivity continues to reflect average management over long-term growing conditions.
- Precisely measures changes in productivity between soils in different soil mapping units without regard to current management practices.
- Eliminates subjective decision-making from determining land productivity by department staff.
- Creates flexibility to readily make changes based on changes in management, technology, markets or the environment.